

## INTERNAL AUDIT POLICY

PUBLIC EMPLOYEES RETIREMENT SYSTEM INTERNAL AUDIT POLICY	Policy No. 101
	Effective Date: 8/26/93
	Revised: 5/17/05
Subject: Audit Committee Charter	Page 1 of 5

### PURPOSE

The audit committee is appointed by the board of directors of the agency to assist the board of directors in fulfilling its fiduciary oversight responsibilities for the (1) financial reporting process, (2) the system of risk management, (3) the system of internal controls, (4) the performance of the agency's internal audit process, (5) the external audit of the financial statements, (6) the engagements with other external audit firms, (7) the organization's processes for monitoring compliance with laws, regulations and the ethics policy, code of conduct and fraud policy, (8) the special investigations and whistleblower mechanism, and (9) the audit committee management and reporting responsibilities.

### STRUCTURE

The audit committee will consist of at least two and no more than three members of the Board of Directors. The Board or its nominating committee will appoint committee members and the committee chair. The Board should attempt to appoint committee members who are knowledgeable and experienced in financial matters, including the review of financial statements.

### MEETINGS

The audit committee will meet as often as it determines is appropriate, but not less frequently than quarterly. All committee members are expected to attend each meeting, in person or via tele- or video-conference. The committee periodically will hold individual meetings with management, the internal auditor and the external auditor. The audit committee may invite any officer or employee of the agency, the external auditor, the agency's outside counsel, or others to attend meetings and provide pertinent information. Meeting agendas will be prepared by the Chief Audit Executive and provided in advance to members, along with appropriate briefing materials. Minutes will be kept by a member of the audit committee or a person designated by the audit committee.

### AUTHORITY

The audit committee has authority to conduct or authorize examinations into any matters within its scope of responsibility for the following functions:

- 1) Financial Reporting,
- 2) System of Risk Management,
- 3) System of Internal Control,
- 4) Internal Audit,
- 5) External Audit of the Financial Statements,
- 6) Engagements with Other External Audit Firms,
- 7) Monitoring Compliance with Laws and Regulations and the Ethics Policy, Code of Conduct and Fraud Policy,
- 8) Special Investigations and Whistleblower Process, and
- 9) Audit Committee Management and Reporting Responsibilities

## **RESPONSIBILITIES**

The audit committee will carry out the following responsibilities:

### **1) Financial Reporting:**

- a. Obtain information and/or training to enhance the committee members' expertise in financial reporting standards and processes so that the committee may adequately oversee financial reporting.
- b. Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- c. Review with management, the external auditors, and the internal auditors the results of the audit, including any difficulties encountered.
- d. Review all significant adjustments proposed by the external financial statement auditor and by the internal auditor.
- e. Review all significant suggestions for improved financial reporting made by the external financial statement auditor and by the internal auditor.
- f. Review with the General Counsel the status of legal matters that may have an effect on the financial statements.
- g. Review the annual financial statements, and consider whether they are complete, consistent with information known to committee members, and reflect appropriate accounting principles.
- h. Review with management the external auditors all matters required to be communicated to the committee under generally accepted auditing *Standards*.
- i. Understand how management develops interim financial information, and the nature and extent of internal and external auditor involvement.
- j. Review the statement of management responsibility for and the assessment of the effectiveness of the internal control structure and procedures of the organization for financial reporting. Review the attestation on this management assertion by the financial statement auditor as part of the financial statement audit engagement.

### **2) System of Risk Management**

- a. Obtain information about, training in and an understanding of risk management in order to acquire the knowledge necessary to adequately oversee the risk management process.
- b. Periodically review that the organization has a comprehensive policy on risk management.
- c. Consider the effectiveness of the organization's risk management system, including risks of information technology systems.
- d. Consider the risks of business relationships with significant vendors and consultants.
- e. Reviews management's reports on management's self-assessment of risks and the mitigations of these risks.
- f. Understand the scope of internal auditor's and external auditor's review of risk management over financial reporting.
- g. Understand the scope of internal auditor's review of risk management over all other processes, and obtain reports on significant findings and recommendations, together with management's responses.
- h. Understand the scope of any other external auditor's or consultant's review of risk management.
- i. Hire outside experts and consultants in risk management as necessary subject to full board approval.

### **3) System of Internal Control**

- a. Obtain information about, training in and an understanding of internal control in order to acquire the knowledge necessary to adequately oversee the internal control process.
- b. Ensure that the organization has a comprehensive policy on internal control and compliance.

- c. Review periodically the policy on ethics, code of conduct and fraud policy.
- d. Consider the effectiveness of the organization's internal control system, including information technology security and control.
- e. Consider any internal controls required because of business relationships with significant vendors and consultants.
- f. Understand the scope of internal auditor's and external auditor's review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.
- g. Understand the scope of internal auditor's review of internal control over all other processes, and obtain reports on significant findings and recommendations, together with management's responses.
- h. Review the role of the internal auditor's involvement in the corporate governance process, including corporate governance documentation and training.
- i. Periodically review that contracts with external service providers contain appropriate record-keeping and audit language.

#### **4) Internal Audit**

- a. Obtain the information and training needed to enhance the committee members' understanding of the role of internal audits so that the committee may adequately oversee the internal audit function.
- b. Oversee the selection process for the Chief Audit Executive.
- c. Assure and maintain, through the organizational structure of the organization and by other means, the independence of the internal audit process.
- d. Review any difficulties encountered in the course of audit work, including any restrictions on the scope of activities or access to required information
- e. Review with management and the Chief Audit Executive the charter, objectives, plans, activities, staffing, budget, qualifications, and organizational structure of the internal audit function.
- f. Receive and review all internal audit reports and management letters.
- g. Review the responsiveness and timeliness of management's follow-up activities pertaining to any reported findings and recommendations.
- h. Receive periodic notices of advisory and consulting activities by internal auditors.
- i. Review and concur in the appointment, replacement, or dismissal of the Chief Audit Executive.
- j. Review the performance of the Chief Audit Executive periodically.
- k. Review the effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing*.
- l. On a regular basis, meet separately with the Chief Audit Executive to discuss any matters that the committee or internal audit believes should be discussed privately (subject to open meeting laws).
- m. Designate the Chief Audit Executive as the lead coordinator for handling all matters related to audits, examinations, investigations or inquiries of the State Auditor and other appropriate State or Federal agencies.

#### **5) External Audit of the Financial Statements**

- a. Obtain the information and training needed to enhance the committee members' understanding of the purpose of the financial statements audit and the role of external financial statement auditor so that the committee may adequately oversee the financial statement audit function.
- b. Review the external auditor's proposed audit scope and approach, including coordination of audit effort with internal audit.
- c. Review the performance of the external financial statement audit firm, and review the State Auditor's recommendation for the final approval on the request for proposal for, and the appointment, retention or discharge of the audit firm. Obtain input from the Chief Audit Executive, management and other parties as appropriate.

- d. Review the independence of the external financial statement audit firm by obtaining statements from the auditors on relationships between the audit firm and the organization, including any non-audit services, and discussing these relationships with the audit firm. Obtain from management a listing of all services provided by the external audit firm. Obtain information from the Chief Audit Executive and other sources as necessary.
- e. Review the audited financial statements, associated management letter, attestation on the effectiveness of the internal control structure and procedures for financial reporting, other required auditor communications, and all other auditor reports and communications relating to the financial statements.
- f. Review all other reports and communications made by the external financial statement auditor.
- g. Review the responsiveness and timeliness of management's follow-up activities pertaining to any reported findings and recommendations.
- h. On a regular basis, meet separately with the external financial statement audit firm to discuss any matters that the committee or auditors believe should be discussed privately (subject to open meeting laws).
- i. Provide guidelines and mechanisms so that no member of the audit committee or organization staff shall improperly influence the auditors or the firm engaged to perform audit services.
- j. Periodically review a report of all costs of and payments to the external financial statement auditor. The listing should separately disclose the costs of the financial statement audit, other attest projects, agreed-upon-procedures and any non-audit services provided.

#### **6) Engagements with Other External Audit Firms**

- a. Obtain the information and training needed to enhance the committee members' understanding of the role of the other external audit firm(s) so that the committee may adequately oversee their function(s).
- b. Confirm coordination of efficient and effective audit activities between the internal and external auditors.
- c. Review the performance of the other external audit firm(s),
- d. Review the scope all services to be performed by the other external auditor.
- e. Review the reports of the audits and/or agreed-upon-procedures.
- f. Provide a forum for follow up of findings from the audit reports or agreed-upon-procedures.
- g. Meet separately with the other external audit firm(s) on a regular basis to discuss any matters that the committee or staff of the audit firm(s) believes should be discussed
- h. Review a report of all costs of and payments to other external audit firm(s). The listing should separately disclose the costs of any audit, other attest projects, agreed-upon-procedures and any non-audit services provided.

#### **7) Monitoring Compliance**

- a. Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.
- b. Review the findings of any examinations by regulatory agencies, and any auditor observations, including investigations of misconduct and fraud.
- c. Review the process for communicating to all affected parties the ethics policy, code of conduct and fraud policy to organization personnel, and for monitoring compliance therewith.
- d. Obtain regular updates from management and organization legal counsel regarding compliance matters.
- e. Monitor changes and proposed changes in laws, regulations and rules affecting the organization.

**8) Special Investigations and Whistleblower Process**

- a. Institute and oversee special investigations as needed.
- b. Provide an appropriate confidential mechanism for whistleblowers to provide information on potentially fraudulent financial reporting or breaches of internal control to the audit committee.

**9) Audit Committee Management and Reporting Responsibilities**

- a. Regularly report to the Board of Directors about all committee activities, issues, and related recommendations.
- b. Perform other activities related to this charter as requested by the Board of Directors, and report to the Board
- c. Provide an open avenue of communication between internal audit, the external financial statement auditors, other external auditors, management and the Board of Directors.
- d. Review any other reports that the organization issues that relates to audit committee responsibilities.
- e. Confirm annually that all responsibilities outlined in this charter have been carried out. Report annually to the Board, members, retirees and beneficiaries, describing the committee's composition, responsibilities and how they were discharged, and any other information required by rule, including approval of non-audit services.
- f. Review and assess the adequacy of the committee charter periodically, requesting Board approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.

Submitted by: Jamie Kinsella

Approved by: NDPERS Audit Committee

Date: June 13, 2006